

**REPORT OF THE AUDIT OF THE
JOHNSON COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period
May 22, 2008 Through April 15, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
JOHNSON COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period
May 22, 2008 Through April 15, 2009

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - Taxes for the Johnson County Sheriff for the period May 22, 2008 through April 15, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$6,744,489 for the districts for 2008 taxes, retaining commissions of \$273,612 to operate the Sheriff's office. The Sheriff distributed taxes of \$6,468,104 to the districts for taxes.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Roger T. Daniel, Johnson County Judge/Executive

Honorable William D. Witten, Johnson County Sheriff

Members of the Johnson County Fiscal Court

Independent Auditor's Report

We have audited the Johnson County Sheriff's Settlement - 2008 Taxes for the period May 22, 2008 through April 15, 2009. This tax settlement is the responsibility of the Johnson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Johnson County Sheriff's taxes charged, credited, and paid for the period May 22, 2008 through April 15, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 19, 2009 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Roger T. Daniel, County Judge/Executive
Honorable William D. Witten, County Sheriff
Members of the Johnson County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

October 19, 2009

JOHNSON COUNTY
WILLIAM D. WITTEN, SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period May 22, 2008 Through April 15, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 575,987	\$ 917,148	\$ 3,094,864	\$ 772,202
Tangible Personal Property	66,654	143,417	442,792	199,730
Fire Protection	2,601			
Franchise Taxes	77,442	150,066	375,949	
Additional Billings	972	1,799	4,731	1,575
Unmined Coal - 2007 Taxes	8,602	12,577	35,224	11,228
Oil and Gas Property Taxes	22,173	35,303	90,154	29,725
Penalties	6,115	11,989	28,336	7,152
Adjusted to Sheriff's Receipt	(2)	146,200	3	(39)
Gross Chargeable to Sheriff	760,544	1,418,499	4,072,053	1,021,573
<u>Credits</u>				
Exonerations	5,117	11,347	22,785	6,278
Discounts	9,087	16,803	50,590	13,129
Delinquents:				
Real Estate	36,036	73,784	180,132	48,328
Tangible Personal Property	1,482	3,211	7,523	6,418
Franchise Taxes	5,605	6,245	24,280	
Total Credits	57,327	111,390	285,310	74,153
Taxes Collected	\$ 703,217	\$ 1,307,109	\$ 3,786,743	\$ 947,420
Less: Commissions *	30,174	51,415	151,470	40,553
Taxes Due	673,043	1,255,694	3,635,273	906,867
Taxes Paid	671,380	1,255,481	3,635,231	906,012
Refunds (Current and Prior Year)	1,663	213	42	855
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	\$ 0	\$ 0	\$ 0	\$ 0

* See Next Page.

The accompanying notes are an integral part of this financial statement.

JOHNSON COUNTY
WILLIAM D. WITTEN, SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES
For The Period May 22, 2008 Through April 15, 2009
(Continued)

* Commissions:

10% on	\$ 10,000
4.25% on	\$ 2,820,463
4% on	\$ 3,786,743
1% on	\$ 127,283

The accompanying notes are an integral part of this financial statement.

JOHNSON COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Johnson County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

JOHNSON COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2009
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Johnson County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2009. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 1, 2008 through April 15, 2009.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2008. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was August 15, 2007 through June 11, 2008.

Note 4. Interest Income

The Johnson County Sheriff earned \$18,129 as interest income on taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Johnson County Sheriff collected \$45,471 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office. As of October 19, 2009, the Sheriff owed \$9,877 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Johnson County Sheriff collected \$2,550 of advertising costs and of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

JOHNSON COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2009
(Continued)

Note 7. Pending Litigation

The Johnson County Sheriff's Office, the Sheriff, and a Deputy Sheriff are defendants in a pending lawsuit involving an automobile accident Erica Brown, et al v. Leslie Spence and Johnson County Sheriff's Office, Johnson Circuit Civil Action No. 08-CI-176. According to the defendants' legal counsel, it is likely case can either be settled, or any judgment against the defendants to be paid would be within the policy limits of the county's insurance policy with the Kentucky Association of Counties' All Line Fund.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Roger T. Daniel, Johnson County Judge/Executive
Honorable William D. Witten, Johnson County Sheriff
Members of the Johnson County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Johnson County Sheriff's Settlement - Taxes for the period May 22, 2008 through April 15, 2009, and have issued our report thereon dated October 19, 2009. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Johnson County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Johnson County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Johnson County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Johnson County Sheriff's Settlement - 2008 Taxes for the period May 22, 2008 through April 15, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Johnson County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

October 19, 2009

COMMENT AND RECOMMENDATION

JOHNSON COUNTY
WILLIAM D. WITTEN, SHERIFF
COMMENT AND RECOMMENDATION

For The Period May 22, 2008 Through April 15, 2009

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties over receipts and disbursements. The same employee that collects taxes also records to the receipts and disbursements ledger, prepares checks, and prepares the monthly reports. Good internal controls dictate that the same employee should not perform all of these duties. The Sheriff should implement the following compensating controls to help offset the lack of adequate segregation of duties.

- The Sheriff should periodically compare the daily deposit to the daily checkout sheet and receipts ledger.
- The Sheriff should compare the monthly reports to the receipts and disbursements ledger for accuracy.

Any differences in these comparisons should be documented and resolved. Also, the Sheriff should document his review and comparisons by initialing the documents.

Sheriff's Response: None.

